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PENSION

facts

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FOREWORD

Pension Facts is a biennial publication of the American Council of Life Insurance. It is an information resource for writers and editors as well as for those in business, government and other areas who are involved with pension and other employee benefits.

This edition includes the latest available data. We hope you will find it helpful.

Robert N. Chiappetta, A.S.A.
Director, Information and Reference
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American Council of Life Insurance

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MAJOR PENSION AND RETIREMENT PROGRAMS

Half of all full-time workers in commerce and industry in the United States and three-fourths of all government civilian personnel are now enrolled in retirement plans other than Social Security. Included are those enrolled in profit-sharing plans that provide retirement income. The number of participants is estimated to be over 50 million.

The term "coverage" with regard to pension plans differs from its use in life and health insurance. In life and health coverage, there is no difference between persons eligible for benefits and those who receive benefits under the specified conditions. The nature of a retirement contract, however, is such that it is difficult to determine the number of potential beneficiaries in relation to "covered" workers.

Unlike life insurance, which provides instant coverage, a private pension plan provides future benefits that generally are contingent on the employee's age and length of service. Also, dependents and survivors, who have only potential income from the plan, are not counted as covered until they are actually receiving benefits.

However, as in the case of life and health insurance, an individual may be covered by several plans, usually by fulfilling the vesting qualifications under several plans and/or by having primary coverage and being the spouse of a person who is covered.

Private Pension Plans

Private pension plans are those established by private agencies including commercial, industrial, labor and service organizations, nonprofit organizations, nonprofit religious, educational and charitable institutions, and Individual Retirement Accounts or Keogh plans set up by individuals.

Pension plans may be self-administered, placed with banks or trust companies, or insured with life insurance companies.

At the end of 1983, plans with life insurance companies covered 32.4 million persons and provided retirement income to 3.2 million individuals.

TABLE 1
NUMBER OF PERSONS COVERED BY MAJOR
PENSION AND RETIREMENT PROGRAMS
IN THE UNITED STATES

(000 Omitted)

Year	Private Plans		Government-Administered Plans			
	With Life Insurance Companies	Other Private Plans	Railroad Retirement	Federal Civilian Employees†	State and Local Employees	OASI‡
1940	695	3,565	1,349	745	1,552	22,900
1945	1,470	5,240	1,846	2,928	2,008	41,070
1950	2,755	7,500	1,881	1,872	2,894	61,506
1955	4,105	12,290	1,876	2,333	3,927	74,887
1960	5,475	17,540	1,654	2,703	5,160	91,496
1965	7,040	21,060	1,661	3,114	6,780	103,827
1966	7,835	21,710	1,666	3,322	7,210	107,438
1967	8,700	22,330	1,641	3,499	7,594	110,746
1968	9,155	22,910	1,625	3,565	8,012	113,804
1969	9,920	24,410	1,620	3,627	8,303	116,904
1970	10,580	25,520	1,633	3,624	8,591	120,014
1971	10,880	26,580	1,578	3,596	9,079	122,735
1972	11,545	27,400	1,575	3,739	9,563	125,549
1973	12,485	28,700	1,582	4,040	9,850	129,045
1974	13,335	29,240	1,588	4,057	10,635	132,583
1975	15,190	30,300*	1,564	4,171	11,230	135,744
1976	16,965	N.A.	1,572	4,210	12,290	138,633
1977	19,205	N.A.	1,567	4,292	13,124	141,596
1978	21,615	N.A.	1,580	4,380	13,400*	144,260
1979	23,460	N.A.	1,567	4,398	13,680*	147,178
1980	26,080	N.A.	1,533	4,460	13,950*	153,634
1981	27,825	N.A.	1,483	4,566	14,230*	157,569
1982	30,375	N.A.	1,404	4,610	14,504	160,611
1983	32,425	N.A.	1,386	4,683	14,524	161,836

Notes: It is not possible to obtain a total for number of persons covered by pension plans by adding together the figures shown by year. Each series has been derived separately and there are differences in amount of duplication within each series and among the various series and also differences in definition of "coverage" among the series.

Private plans with life insurance companies include persons covered by Keogh plans, tax-sheltered annuities and, after 1974, IRA plans.

Data for "Other Private Plans," compiled by the Social Security Administration, exclude plans for the self-employed, those having vested benefits but not presently employed at the firm where benefits were accrued, and also exclude an estimated number who have vested benefits from employment other than from their current employment.

These data represent various dates during the year, since the fiscal years of the plans are not necessarily the same. Trends from year to year within each series are not affected. The number of persons covered include survivors or dependents of deceased workers and beneficiaries as well as retired workers. Retirement arrangements for members of the armed forces, and provisions for veterans' pensions, are not included.

N.A. = Not Available

*Estimated

†Includes members of the U.S. Civil Service Retirement System, the Tennessee Valley Authority Retirement System, the Foreign Service Retirement System, and the Retirement Plan for Employees of the Federal Reserve System, which includes the Bank Plan and the Board of Governors' plan.

Government-administered Plans

Government-administered plans, including those for federal civilian employees, state and local government employees and railroad workers, covered an estimated 20.6 million persons at year-end 1983. This figure includes some duplication of coverage under more than one plan; some individuals covered by government plans are also covered by one or more private plans and some individuals in the private sector also may have multiple coverage under private plans.

The most comprehensive government retirement program is the federal Old-Age and Survivors Insurance (OASI) system, which is part of Social Security, a national social insurance program created in 1935. Some 168 million persons had Social Security earnings credits at the end of 1983. Over 151 million of these workers had been in the Social Security program long enough to be fully insured (i.e., if they were to die, the full range of survivor benefits would be available, or if they were age 62, they would qualify for retirement benefits). Social Security also includes protection against severe and extended disability through the Disability Insurance (DI) program and against the high costs of medical care for the aged and the long-term disabled through Medicare.

Legislation enacted in 1983 (Public Law 98-21) addressed the serious Social Security financing problem that had been brought about over the last few years by poor economic performance and changes in demographic projections. This legislation is designed to put the Social Security program back on a sound financial footing both in the immediate future and over the long range. The new law is based on the recommendations of the National Commission on Social Security Reform, a group appointed by President Reagan to study and make recommendations to resolve the Social Security financial crisis. The Commission's "Bipartisan Solution" to the Social Security financing problem was designed to distribute fairly the burden of restoring Social Security's financial stability. To that end, P.L. 98-21 includes, among other changes, increasing taxes for employers, workers, and the self-employed, making part of Social Security benefits subject to taxation for upper-income taxpayers, raising the age of eligibility for unreduced retirement benefits in the next century, and making new federal employees, members of Congress, the President and other federal officials subject to Social

†Includes living workers insured for retirement and/or survivors benefits including the self-employed, plus dependents of retired workers and survivors of deceased workers who are receiving periodic benefits

SOURCE: Compiled by the American Council of Life Insurance

Security taxes for the first time. With the enactment of this new law, the Social Security system is projected to be financially sound over the next 75 years, with income equalling expenditures over that period.

Actuarially-funded retirement systems for civilian employees of the United States government cover 4.7 million persons.

The Railroad Retirement System, the only retirement system administered by the federal government for a single private industry, covered 1.4 million persons at year-end 1983, including 990,000 beneficiaries.

State and local government retirement systems covered 14.5 million persons at the end of 1983.

TABLE 2
ASSETS AND RESERVES OF MAJOR PENSION
AND RETIREMENT PROGRAMS
IN THE UNITED STATES

(000,000 Omitted)

Year	Private Plans		Government-Administered Plans			
	With Life Insurance Companies	Other Private Plans	Railroad Retirement	Federal Civilian Employees*	State and Local Employees	Old-Age, Survivors and Disability Insurance**
1950	\$ 5,600	N A	\$2,553	\$ 4,344	\$ 5,154	\$13,721
1960	18,850	\$ 38,148	3,740	10,790	19,600	22,613
1965	27,350	73,647	3,946	16,516	33,100	19,841
1966	29,425	75,781	4,074	17,619	36,900	22,308
1967	32,000	89,417	4,236	18,799	41,500	26,250
1968	34,975	101,456	4,245	20,224	46,300	28,729
1969	37,900	102,285	4,347	21,600	51,800	34,182
1970	41,175	110,394	4,398	23,922	58,200	38,068
1971	46,400	130,121	4,300	26,532	64,800	40,434
1972	52,300	160,359	4,100	29,978	73,400	42,775
1973	56,085	146,604	3,800	32,283	82,700	44,414
1974	60,810	138,609	3,600	35,366	92,400	45,886
1975	72,210	186,593	3,100	39,248	103,700	44,342
1976	88,990	211,609	3,065	44,089	117,300	41,133
1977	101,520	225,147	2,584	50,832	130,800	35,861
1978	119,110	257,374	2,787	57,677	142,573	31,746
1979	139,180	318,618	2,611	65,914	161,649	30,291
1980	165,845	412,659	2,086	75,802	185,226	26,453
1981	190,925	431,012	1,126	86,867	209,444	24,539
1982	225,195	518,071	460	99,462	245,252	24,778†
1983	264,575	607,777	601	114,219	289,731	24,867†

Note: Some data are revised. These data are as of various dates during the year, since the fiscal years of the plans are not necessarily the same. Trends from year to year are not affected.

*Includes members of the U.S. Civil Service Retirement System, the Tennessee Valley Retirement System, the Foreign Service Retirement System, and the Retirement System of the Federal Reserve Banks, which includes the Bank Plan and the Board of Governors' plan.

**Beginning in 1957, assets of Disability Insurance Trust Funds are included. Hospital and Supplementary Medical Insurance is not included.

†Includes funds borrowed from the Hospital Insurance Trust Fund.

SOURCES: Railroad Retirement Board; Social Security Administration, U.S. Department of Health and Human Services; Federal Reserve System; other administrative agencies; and the American Council of Life Insurance.

PENSION PLANS WITH LIFE INSURANCE COMPANIES

There were 32.4 million Americans covered by private pension plans funded with U.S. legal reserve life insurance companies at year-end 1983, an increase of 2.1 million over 1982. This figure includes retired persons receiving pension benefits, those who left employment before retirement with vested pension credits, and active workers. There is some duplication due to persons being covered under more than one plan.

Pension reserves backing these plans reached \$264.6 billion at year-end 1983, an increase of 17.5% over year-end 1982 and almost five times the amount of pension reserves held 10 years ago.

Pension plans administered by life insurance companies are not necessarily different in plan design from other pension and retirement plans. With the growth of employee benefits, life insurance companies have modified the design of contracts and policies used to fund pension plans so that employers can choose to participate in the investment and actuarial experience of the contract.

Group Pension Plans

Most persons covered by pension plans administered by life insurance companies are under group pension contracts. There are a variety of such plans.

Deferred group annuities. Under these plans, each year the employer purchases a single-premium deferred annuity for each participant in an amount determined under the plan's benefit formula, which usually relates to the participant's earnings during the year. The group deferred annuity has been declining in popularity in recent years because it limits an employer's opportunities to participate in actuarial and investment gains.

Deposit administration contracts. A single fund is set up for all plan participants. Money is withdrawn to buy an annuity when a participant retires.

Immediate participation guarantee plans. Available for large employee groups, these are a variation of contracts, deposit administration with participation in actuarial, investment or administrative gains or losses as they occur, rather than being spread over the life of the contract.

The preceding three types of plans are reported together as "Group Annuities" in the tables accompanying this text.

Terminal funded group plans. These are funded by the employer on the date of the employee's retirement with a single lump sum sufficient to provide the monthly pension benefit due under the plan. Normally a reserve for future retirees' benefits is not set up with the life insurance company prior to each participant's retirement.

Individual policy pension trusts, group permanent plans and profit-sharing plans are often used by smaller firms. Almost 1.9 million persons were covered by such plans at year-end 1983. Individual policy pension trusts usually involve the purchase of an individual whole life or endowment policy for each person to provide retirement benefits. Group permanent plans use whole life or endowment policies on a group basis keyed to retirement. Profit-sharing plans included here generally provide an individual fund for each participant annually.

Individual Plans

There are three general types of tax-deferred retirement plans available to individuals under specific circumstances.

H.R. 10 (Keogh) plans. Available for more than 20 years, these allow self-employed persons and proprietors of small businesses to set up individual plans for themselves and their employees.

At year-end 1983, H.R. 10 plans with life insurance companies covered 495,000 persons, including 15,000 individuals receiving benefits. Reserves for these plans were over \$3.1 billion.

Individual Retirement Accounts (IRAs). These were originally designed for self-employed individuals, persons who do not qualify for a retirement plan at their place of employment, or persons employed for an organization that does not offer a retirement plan. At year-end 1983, there were 2,630,000 individuals who had established IRAs with life insurance companies. Most plans were not yet paying benefits, and reserves totaled \$9.0 billion.

Table 4 illustrates the dollar amounts held, by institution, for Individual Retirement Accounts (IRAs) and H.R. 10 plans at year-end 1982 and 1983.

The Internal Revenue Service's analysis of 1982 individual income tax returns shows that 12,010,038 returns claimed contributions to Individual Retirement Accounts, and the total amount contributed was almost \$28.3 billion. Almost \$2.5 billion in H.R. 10 contributions were reported on 559,011 returns.

TABLE 3
PENSION PLANS IN THE UNITED STATES WITH LIFE INSURANCE COMPANIES
IN FORCE AT YEAR-END

Year and Types of Plan	Number of Persons (in thousands)				Reserves (in millions)			
	Number of Plans	Not Yet Receiv- ing Pensions	Receiv- ing Pensions	Total	Payments into Plans in Year ¹ (in millions)	Benefits Paid in Year (in millions)	Reserves	
							Total (Includes Separate Account Reserves)	Separate Account
1950								
Deferred Group Annuity	2,460	NA	NA	1,950	\$ 640	NA	\$ 4,125	—
Deposit Administration Group Annuity	160	NA	NA	275	50	NA	225	—
Pension Trust	7,530	NA	NA	340	170	NA	700	—
Other ²	1,120	NA	NA	190	75	NA	550	—
Total	11,270	2,605	150	2,755	\$ 935	\$ 80	\$ 5,600	—
1955								
Deferred Group Annuity	3,740	NA	NA	2,345	\$ 845	NA	\$ 7,925	—
Deposit Administration Group Annuity	990	NA	NA	950	220	NA	1,075	—
Pension Trust	12,530	NA	NA	485	250	NA	1,400	—
Other ²	1,720	NA	NA	325	110	NA	925	—
Total	18,980	3,815	290	4,105	\$ 1,425	\$ 180	\$ 11,325	—
1960								
Deferred Group Annuity	5,590	NA	NA	2,525	\$ 695	NA	\$ 11,675	—
Deposit Administration Group Annuity	3,120	NA	NA	1,835	415	NA	3,375	—
Pension Trust	20,460	NA	NA	675	NA	NA	2,175	—
Other ²	3,170	NA	NA	440	190	NA	1,625	—
Total	32,340	4,935	540	5,475	\$ 1,615	\$ 390	\$ 18,850	—
1965								
Deferred Group Annuity	7,980	NA	NA	2,275	\$ 850	NA	\$ 14,225	NA
Deposit Administration Group Annuity	7,700	NA	NA	3,410	905	NA	7,950	NA
Pension Trust	43,580	NA	NA	795	365	NA	2,550	NA
Other ²	8,500	NA	NA	560	275	NA	2,625	NA
Total	67,760	6,250	790	7,040	\$ 2,395	\$ 720	\$ 27,350	\$ 260
1970								
Deferred Group Annuity	10,280	1,435	520	1,955	\$ 725	\$ 445	\$ 12,800	NA
Deposit Administration Group Annuity	15,020	5,580	545	6,125	1,865	715	20,625	NA
Pension Trust	92,590	1,065	95	1,160	575	100	3,350	NA
Other ²	171,620	1,275	65	1,340	730	70	4,400	NA
Total	289,510	9,355	1,225	10,580	\$ 3,895	\$ 1,330	\$ 41,175	\$ 4,900

TABLE 4
OUTSTANDING AMOUNTS IN IRAs
AND KEOGH PLANS WITH SELECTED
FINANCIAL INSTITUTIONS, YEAR-END
(000,000 Omitted)

Institution	IRA Accounts		Keogh Plans		Total		Percent of Total	
	1982	1983	1982	1983	1982	1983	1982	1983
Life Insurance Companies	\$ 5,800	\$ 8,995	\$2,830	\$3,125	\$ 8,630	\$ 12,120	12.9%	11.8%
Mutual Funds	5,758	10,800	5,185	6,030	10,943	16,830	16.3	16.3
U.S. Treasury Retirement	37	35	160	151	197	186	0.3	0.2
Commercial Banks*	NA	NA	NA	NA	17,900	30,400	26.7	29.5
Mutual Savings Banks	4,658	7,040	1,537	1,630	6,195	8,670	9.3	8.4
Savings & Loan Associations	17,650*	NA	3,850*	NA	21,500*	29,695*	32.1	28.9
Credit Unions	1,600	5,000	—	—	1,600	5,000	2.4	4.9
Total	NA	NA	NA	NA	\$66,965	\$102,901	100.0%	100.0%

NA = Not Available

*Estimated.

SOURCES: American Council of Life Insurance, Investment Company Institute, U.S. Treasury Department, Board of Governors of the Federal Reserve System, National Association of Mutual Savings Banks, Federal Home Loan Bank Board and National Association of Credit Unions.

The Revenue Act of 1978 liberalized and simplified tax rules for IRAs, including an increase in the IRA contribution limit for employee IRAs. The deadline for establishing and making contributions to IRA plans was extended, penalties for overcontributing to plans were eased, as were rollover provisions.

The Economic Recovery Act of 1981 raised contribution limits on Individual Retirement Accounts and H.R. 10 plans and extended IRA eligibility to persons covered by employer pension plans as of January 1, 1982. Since then, the number of IRAs with life insurance companies increased by 1.5 million, or 130.7%, and reserves increased by \$5.7 billion, or 170.9%.

Tax-sheltered annuities. These plans are permitted for use primarily in the academic community and nonprofit foundations. Life insurance companies administered \$19.7 billion in the assets of tax-sheltered annuities in 1983. These plans covered 2.5 million persons, including 65,000 annuitants in 1983.

Funding Options

Pension plans can be funded in many ways. The most common are described below.

Annuities. Annuities may be classified in a variety of ways. There are fixed premium, flexible premium and single premium annuities—all describing the method used to purchase the annuity.

The annuity may be characterized by the manner in which the premiums draw interest and pay benefits—fixed rate of interest and fixed benefit payments, or variable rate of interest and benefit payments. In the latter, the assets are primarily placed in common stocks and the interest rate is usually indexed to the performance of the fund. *Variable annuity* investments are largely kept in separate accounts (see page 14). In 1983, there were 38,150 group pension funds providing variable annuity payouts according to an equity fund index (Table 5). Other indices were used in 620 group variable plans with indices relating to such bases as changes in the cost of living.

"The Language of Pensions" section, which begins on page 44, includes definitions of various types of annuities.

TABLE 5
VARIABLE ANNUITY PLANS IN THE
UNITED STATES 1983

(Dollar Amounts in Thousands)

	Group Plans				Total (Group and Individual)
	Equity Fund Index	Other Indices	Total Group	Individual Plans	
IN FORCE YEAR-END 1983					
No. of Plans	38,150	620	38,770	—	—
No. of Persons	1,520,060	79,640	1,599,700	1,029,350	2,629,050
Reserves					
Variable	\$ 4,721,900	\$ 635,620	\$ 5,357,520	\$6,056,780	\$11,414,300
Other	7,326,300	491,220	7,817,520	2,843,590	10,661,110
Total	\$12,048,200	\$1,126,840	\$13,175,040	\$8,900,370	\$22,075,410
CONSIDERATIONS IN 1983					
Variable	\$ 514,370	\$ 41,180	\$ 555,550	\$1,171,250	\$ 1,726,800
Other	782,250	67,910	850,160	430,550	1,280,710
Total	\$1,296,620	\$109,090	\$1,405,710	\$1,601,800	\$ 3,007,510
VARIABLE ANNUITIES IN COURSE OF PAYMENT 1983					
No. of Persons					
Receiving Payments					
Year-End 1983	24,880	12,420	37,300	14,090	51,390
Annualized Income					
Variable	\$ 32,940	\$ 40,690	\$ 73,630	\$ 7,550	\$ 81,180
Fixed	165,600	40,110	205,710	19,870	225,580
Total	\$ 198,540	\$ 80,800	\$ 279,340	\$ 27,420	\$ 306,760

Note: The table includes variable and fixed data on plans which provide variable annuity benefits either in whole or in part. Numbers of plans and active lives under plans which provide an option for a variable annuity payout at retirement are not included. For 1983 there were 880 such groups covering 126,090 persons, and 33,610 individual plans.

SOURCE: American Council of Life Insurance.

Guaranteed Investment Contracts (GICs). These are usually sold as "group annuities" by life insurance companies. They are fixed income funding instruments backed by the general accounts of the company. Maturities generally range from five to twenty years. Interest is compounded at a fixed rate annually. GICs are popular with larger employers and multi-employer pension plans interested in minimizing investment risk. At year-end 1983 about 15% of life insurance company pension funds were in such contracts.

Permanent life insurance contracts. These may be purchased to provide plan benefits in certain types of pension plans. Whole life, endowment and retirement income policies may be used for this purpose.

Separate Accounts

At one time, banks and other financial institutions had a competitive advantage over life insurance companies for pension business, in part because of restrictions in state laws on the amount of assets life companies could place in certain investments. In the early 1960s, however, life insurance companies were permitted under state laws to invest pension funds in "separate accounts," which are

TABLE 6
LIFE INSURANCE COMPANY SEPARATE ACCOUNTS

Separate Accounts Used Solely for:	December 31, 1982				December 31, 1983			
	Num- ber of Com- panies	Num- ber of Ac- counts	Number of Con- tracts Partici- pating in Ac- counts	Assets Held (Millions)	Num- ber of Com- panies	Num- ber of Ac- counts	Number of Con- tracts Partici- pating in Ac- counts	Assets Held (Millions)
Group Pension Contracts	81	433	37,654	\$49,515	83	459	39,493	\$57,884
Individual Var- iable Annuity Contracts	45	283	665,658	3,727	50	334	687,869	4,533
Individual Variable Life Insurance	8	20	429,711	201	10	19	737,183	503
Mixed Purposes	34	9,794	243,963	3,277	31	9,792	317,146	3,871
Total	118*	10,530	1,376,986*	\$56,720	130*	10,604	1,781,691*	\$66,791

*Details do not add due to companies having more than one type of separate account, and due to contracts participating in more than one account.

NOTE: Data represent 99% of total life insurance company separate account assets as of December 31, 1983.

SOURCE: American Council of Life Insurance.

not subject to the same investment limitations as the companies' general accounts. Life insurance companies can invest up to 100% of separate account assets in equities, while the general accounts are limited to holding only a small fraction of assets in such investments. By year-end 1983, 171 U.S. life insurance companies had established separate accounts.

In 1983, \$64.5 billion of pension assets were held in separate accounts, about 24% of total pension assets. Separate account assets at year-end 1983 were almost entirely pension assets.

A survey of separate account assets at year-end 1983 (Tables 6 and 7), representing 132 companies and 99% of total separate account assets, showed that 87% of the assets in these separate accounts were used solely for group pension contracts. Further, 29% of these group pension contract assets were invested solely or primarily in common stocks.

TABLE 7
LIFE INSURANCE COMPANY SEPARATE ACCOUNTS
USED SOLELY FOR GROUP PENSION CONTRACTS

	December 31, 1982			December 31, 1983		
	Number of Accounts	Number of Contracts Participating in Accounts	Assets Held (Millions)	Number of Accounts	Number of Contracts Participating in Accounts	Assets Held (Millions)
Invested Primarily in:						
Common stocks	163	18,072	\$14,730	169	17,749	\$17,069
Publicly traded bonds	67	2,472	2,733	71	3,203	3,207
Private placement debt	14	579	1,633	15	635	1,573
Real property	17	1,514	6,217	20	1,635	7,877
Real estate mortgages	9	203	520	13	322	978
Short term investments	39	8,025	3,256	44	8,760	4,023
Mixed portfolio, common stocks and publicly traded bonds	41	953	1,632	39	853	1,921
Publicly traded bonds and private placement debt	1	2	7	2	4	10
Real property and real estate mortgages	7	540	2,796	7	547	3,037
Other	75	5,375	15,991	79	5,884	18,189
TOTAL	433	37,735*	\$49,515	459	39,592	\$57,884

*Totals differ from those shown in Table 6 due to contracts participating in more than one account.

SOURCE: American Council of Life Insurance.

PRIVATE NON-LIFE INSURANCE COMPANY PENSION PLANS

Private pension plans other than those funded with life insurance companies represent the oldest type of industrial retirement planning in the United States. Assets amounted to \$607.8 billion at the end of September 1983.

Private retirement plans in this category are generally trustee pension plans under which contributions are paid into a trust, usually administered by a bank or trust company, which holds and invests the contributions and pays benefits in accordance with the terms of the trust and the plan provisions. In some cases, the investment procedure is handled directly by the employer, particularly in very large firms with investment staffs, or jointly with outside advisors.

Some trustee plans are deferred profit-sharing plans which provide for retirement income. Some pay-as-you-go plans are also included in this section, and usually do not have an advance funding arrangement but pay benefits from current employer revenues.

Non-life insurance company pension and retirement plans are usually divided into "pattern" plans and "conventional" plans for purposes of analyzing funding, plan provisions and benefit levels. Until 1950, practically all plans were the conventional type, but in 1949, when the principle was established that pensions are subject to collective bargaining, "pattern" plans took hold, particularly in large industries, and were a major reason for the vast growth of private pension plans.

The term "pattern" refers to a form of plan which has been adopted by certain international unions and, with minor variations, by individual companies or groups of companies. Historically, the pension provided was a flat dollar benefit which varied only by years of service. The steel industry has long been an exception, along with a few smaller industries, in that employee compensation was also taken into account. Recently other industries, notably the automotive and aerospace industries, have modified the pattern to take into account the compensation level. Pattern plans have other common characteristics: they are usually non-contributory; there is usually no Social Security offset; and usually there is no waiting period for eligibility. Conventional plans provide benefits which vary both with years of service and rate of compensation. Other plan provisions are also less standardized in areas such as eligibility and employee contributions.

TABLE 8
PRIVATE PENSION PLANS IN THE UNITED STATES NOT FUNDED WITH
LIFE INSURANCE COMPANIES
(in Millions)

Calendar Year	Number of Persons		Contributions in Year*			Benefits Paid in Year**
	Not Yet Receiving Pensions	Receiving Pensions	Total	Employer	Employee	Total
1930	NA	NA	2.70	NA	NA	NA
1935	NA	NA	2.53	NA	NA	NA
1940	3.44	.13	3.57	NA	NA	NA
1945	4.99	.25	5.24	NA	NA	NA
1950	7.20	.30	7.50	\$ 1,030	\$ 130	\$ 290
1955	11.60	.69	12.29	2,180	280	2,460
1960	16.30	1.24	17.54	3,520	480	4,000
1965	19.10	1.96	21.06	5,600	670	6,270
1970	22.00	3.52	25.52	9,720	1,070	10,790
1975	24.90	5.40	30.30	19,830	1,600	21,430

NOTE: Data exclude self-employed persons and others covered by HR 10, IRA and tax-sheltered annuity plans. The number of persons "Not Yet Receiving Pensions" includes some duplication. These or equivalent data are not available after 1975.

NA = Not Available.

*Contributions are on a gross basis and do not include refunds. For pay-as-you-go plans, contributions are assumed to equal benefits.

**Benefit payments include refunds to employees and their survivors, and lump sums under deferred profit-sharing plans.

SOURCE: Social Security Administration, U.S. Department of Health and Human Services.

TABLE 9
DISTRIBUTION OF ASSETS OF NONINSURED PRIVATE PENSION FUNDS
(000,000 Omitted)

Calendar Year	U.S. Government Securities	Corporate and Foreign Bonds	Corporate Equities	Mortgages	Open-Market Paper	Deposits and Currency	Miscellaneous	Total
1952	\$ 2,478	\$ 4,548	\$ 1,843	\$ 149	—	\$ 310	\$ 514	\$ 9,842
1955	2,992	7,853	6,085	321	—	415	676	18,342
1960	2,683	15,699	16,545	1,301	—	546	1,374	38,148
1965	2,994	22,703	40,754	3,385	—	941	2,870	73,647
1970	3,029	29,443	67,087	4,171	—	1,106	4,860	110,394
1975	24,925	43,868	102,141	2,383	\$ 4,200	1,747	—	186,593
1976	32,267	44,564	116,011	2,370	5,858	1,949	—	211,609
1977	38,948	48,185	111,341	2,497	11,668	2,087	—	225,147
1978	43,860	58,517	116,875	2,788	18,966	2,308	—	257,374
1979	55,455	71,305	146,628	3,092	22,514	2,763	—	318,618
1980	74,985	81,997	209,465	3,685	22,464	2,832	—	412,659
1981	101,143	85,361	195,555	3,749	23,716	3,031	—	431,012
1982	136,805	86,481	248,446	4,110	22,255	2,812	—	518,071
1983	152,338	92,319	306,179	5,228	26,717	3,433	—	607,777

SOURCE: Federal Reserve System.

GOVERNMENT-ADMINISTERED RETIREMENT PLANS

Responsibility for employee retirement income in the United States is divided among employees themselves, private sector funds, state and local government funds, and the federal government, which operates not only the Social Security system but retirement plans for civilian and military federal government employees and railroad employees.

Social Security System

Social Security, the largest social and economic program of the federal government, is financed primarily through taxes on wages and self-employment income and provides benefit payments to retired and disabled persons, their dependents and survivors, as well as covering major medical expenses for the aged and long-term disabled. Coverage under the Social Security system includes, with a few exceptions, all those gainfully employed. Taxes are paid into the Old-Age and Survivors, Disability, and Hospital Insurance (OASDHI) Trust Funds at equal rates for employers and their employees¹. Under Public Law 98-21, the tax rate for self-employed persons will increase, beginning in 1984, to the combined employer-employee rate; prior law applied a tax rate nearly one and one-half times the employee rate. Some 168 million persons had Social Security earning credits at the end of 1983. Of these, 151 million had been in the program long enough to be fully insured for OASI.

A total of \$150 billion in Social Security taxes (excluding Medicare) was paid in 1983, including \$72 billion by employers, \$72 billion by employees and \$6 billion by self-employed persons. Combined assets of the Social Security Trust Funds for cash benefits totaled \$24.9 billion (Includes \$12.4 billion borrowed from the HI Trust Fund under the interfund borrowing provision of Public Law 97-123.) at year-end 1983.

For 1983, Social Security payments amounted to \$224 billion, including Medicare payments. Table 11 refers only to the retirement portion and the disability provisions.

The Social Security program is based on the concept of earnings-related benefits financed by payroll taxes applied equally to employers and employees and by taxes on the net earnings of the

¹P.L. 98-21 provides, for 1984 only, a credit against Social Security employee taxes amounting to 0.3% of covered wages; no such credit is provided for employers.

TABLE 10
THE FEDERAL OLD-AGE, SURVIVORS, AND DISABILITY INSURANCE PROGRAM
(in Millions)

Year	Estimated Number of Persons (End of Year)			Contributions During Year*				
	Persons with Wage Credits**	Persons Insured for Retirement Benefits	Assets† (End of Year) (Trust Funds)	Employer	Employee	Self- Employed	Total	
1940	44.8	24.9	\$ 2,031	\$ 319	\$ 319	—	\$ 638	
1945	72.4	40.3	7,121	643	643	—	1,285	
1950	82.7	59.8	13,721	1,334	1,334	—	2,667	
1955	98.6	71.4	21,663	2,730	2,664	\$ 319	5,713	
1960	109.4	85.4	22,613	5,632	5,543	701	11,876	
1965	121.3	95.8	19,841	8,183	7,991	1,032	17,205	
1970	135.9	109.8	38,068	16,643	16,321	1,774	34,737	
1975	148.3	124.6	44,342	30,746	30,478	3,036	64,259	
1976	150.9	127.4	41,133	34,381	34,080	3,133	71,595	
1977	154.0	130.4	35,861	37,724	37,439	3,548	78,710	
1978	156.8	134.8	31,746	42,745	42,370	3,768	88,883	
1979	159.2	138.7	30,291	49,546	49,084	4,404	103,034	
1980	161.8	141.5	26,453	56,036	55,692	4,983	116,711	
1981	164.0	144.9	24,539	67,046	66,690	5,598	139,364	
1982	166.3	148.0	24,778††	69,702	69,492	6,473	145,667	
1983	168.0	151.1	24,867††	72,314	72,070	5,879	150,263	

NOTE: Some data are revised. Data may not add to totals due to rounding.

*Figures do not include contributions to the hospital and medical insurance programs.

**Persons who ever had covered earnings and are living at end of year.

†Assets do not reflect solely the contributions paid for Social Security by the private economy, less payments and administration costs. For example, prior to 1940, contributions were paid into the government general funds, and an appropriation was then made to a "reserve account" from the general funds, not necessarily equal to the contributions. The OASI trust fund was established in 1940, and from time to time payments from government general funds have been made to this trust fund to cover special items, such as costs of benefits to survivors of certain World War II servicemen. The OASI trust fund was established in 1957, and includes certain payments other than regular contributions, such as reimbursement for non-contributory credit for military service. Other payments from government general funds will be made into these funds in the future to cover costs of such items as the special payments to persons 72 and over provided in the Tax Adjustment Act of 1966. The assets shown above do not include funds in the two newest trust funds—the hospital insurance trust fund, effective January 1, 1966, and the supplementary medical insurance trust fund, effective July, 1966.

††Includes funds borrowed from the Hospital Insurance Trust Fund.

SOURCE: Social Security Administration, U.S. Department of Health and Human Services.

TABLE 11
PERSONS RECEIVING OASDI BENEFITS AT END OF YEAR
AND AMOUNT OF OASDI BENEFITS DURING YEAR*

Year	Workers Retired for Age or Disability		Dependents of Retired Workers and Survivors of Deceased Workers		Total	
	Persons (in thousands)	Benefits (in millions) \$	Persons (in thousands)	Benefits (in millions) \$	Persons (in thousands)	Benefits (in millions) \$
1940	112	15	100	20	212	35
1945	518	126	770	148	1,288	274
1950	1,771	557	1,706	404	3,477	961
1955	4,474	3,253	3,487	1,715	7,961	4,968
1960	8,517	7,542	6,328	3,703	14,845	11,245
1965	12,089	12,230	8,778	6,081	20,867	18,311
1970	14,845	21,191	11,390	10,672	26,235	31,863
1975	19,301	45,183	12,785	21,740	32,085	66,923
1976	20,024	51,447	13,000	24,218	33,024	75,665
1977	20,826	57,800	13,256	26,776	34,083	84,576
1978	21,372	63,712	13,215	29,154	34,587	92,865
1979	21,953	71,840	13,172	32,423	35,125	104,263
1980	22,537	83,295	13,082	37,217	35,619	120,512
1981	22,972	97,993	13,034	43,003	36,006	140,996
1982	23,368	109,933	12,472	46,204	35,840	156,137
1983	23,988	118,774	12,097	48,258	36,085	167,032

*Benefits include monthly pensions and other payments, and lump sum payments.

SOURCE: Social Security Administration, U.S. Department of Health and Human Services.

self-employed. It is designed to operate on a "pay-as-you-go" basis, but with a contingency reserve, or "trust fund," that serves as a cushion so that benefits can be paid when poor economic conditions cause expenditures to exceed income. Social Security is intended to provide only a floor of economic protection for elderly persons without making the benefits so high that private employer-employee plans, personal savings, insurance and investments would be discouraged.

The U.S. Social Security system has undergone many functional changes since Congress passed the Social Security Act in 1935. Originally, groups including self-employed persons, domestic servants, farm workers, railroad workers, government employees, and employees of nonprofit organizations were excluded. Over the years, coverage has been extended to most of these groups. Nine out of 10 employed persons are now covered under Social Security. Not included are railroad workers (who have their own plan that is coordinated with OASDI), federal employees under any federal retirement system (although under P.L. 98-21 people newly hired by the federal government after December 31, 1983, will be covered under Social Security), certain employees of State and local governments, nonprofit groups (whose coverage is optional, however, all nonprofit employees are covered effective January 1, 1984), irregularly employed farm and domestic workers and low income, self-employed persons.

Retirement benefits under Social Security are payable according to law upon retirement at or after age 62 (benefits are reduced for retirement prior to age 65) and after a service requirement is met. (Under P.L. 98-21, the age of eligibility for unreduced retirement benefits—the retirement age—will gradually increase to 67 after the turn of the century.)

Some social-adequacy types of payments have been provided since the early years of the program. Subsequent changes expanded the system so that it provided minimum benefits² and dependents' and survivors' benefits that are related to the worker's benefit. The benefit formulas have always been weighted toward lower-paid employees. In the mid-1970s, it became evident that the program was being seriously underfinanced. Short-term as well as long-term actuarial deficits were forecast. The system's financing problems were attributed to poor economic performance coupled with a flaw in the 1972 benefit formula that over-generously adjusted initial benefits for the effects of inflation. In the long run, evolving demo-

²Legislation enacted in 1981 eliminated the minimum benefit for people first eligible for benefits in 1982 or later.

graphic changes were projected to cause financial problems in the next century.

The 1977 Social Security Amendments were designed to correct the system's short-range financing problems and some of the long-range problems by increasing payroll tax revenues and by more equitably adjusting Social Security initial benefit levels. In fact, the 1977 modification to correct the over-indexed automatic inflation adjustment in the benefit formula eliminated about half the projected long-term actuarial deficit. The 1977 law also increased the annual amount of earnings a beneficiary aged 65 or older could have without reduction of Social Security benefits, substantially eliminated the monthly earnings test, and lowered the age at which the test would no longer apply from 72 to 70 beginning in 1980. Additionally, the law liberalized the rules regarding widows or widowers age 60 or over so that benefits would not be reduced or stopped because of remarriage.

To increase the number of eligible surviving divorced spouses, the required length of the previous marriage was reduced from 20 to 10 years.

On June 9, 1980, Public Law 96-265, the Social Security Disability Amendments of 1980, was enacted. These amendments made a number of changes in the way benefits are calculated for disabled workers and their families and in the administration of the DI program. The legislation is designed to strengthen incentives for disabled beneficiaries to return to work and to improve accountability under the DI program.

Despite the changes made in the 1977 amendments, the continuing poor performance of the economy has placed the OASI Trust Fund in jeopardy. On October 9, 1980, Public Law 96-403 (the Reallocation of Social Security Tax Receipts Act) was signed into law. This act reallocated portions of the DI tax rate to the OASI Trust Fund for calendar years 1980 and 1981. (Total OASDI tax rates were not changed.) This adjustment was made to place income to the two trust funds on a relatively more even basis during this period, and to allow additional time to deliberate on resolving the impending OASI financial problems.

On October 19, 1980, Public Law 96-473 (which amended the Social Security Act) was signed into law. This amendment makes a number of modifications to the earnings test provisions of the law in order to correct certain inequities caused when the monthly earnings test was substantially eliminated by the Social Security Amendments of 1977. In addition, P.L. 96-473 provides for restrictions on Social Security benefits for certain inmates of penal institutions.

TABLE 12
FEDERAL CIVILIAN RETIREMENT SYSTEMS
(Thousands of persons and millions of dollars)

	Not Yet Receiving Benefits	Number of Persons			Contributions in Year			Benefits Paid in Year			Assets and Reserves
		Retired or Disabled	Receiving Benefits Survivors, Dependents	Total	Employers	Employees	Total	Age, Service, and Disability	Dependents and Survivors	Total	
1950											
Federal Civil Service	1 670	154	18	1 842	\$ 307	\$ 370	\$ 677	\$ 176	\$ 8	\$ 184	\$ 4 202
Federal Reserve Board	19	1	-	20	5	4	9	1	-	1	98
Foreign Service	1	-	-	1	2	1	3	1	-	1	17
Tennessee Valley Authority	9	-	-	9	2	2	4	-	-	-	27
Total	1 699	155	18	1 872	316	377	693	178	8	186	4 344
1960											
Federal Civil Service	3 154	361	150	3 665	823	787	1 610	700	105	805	10 480
Federal Reserve Board	20	3	-	23	9	3	12	5	-	5	178
Foreign Service	4	-	-	4	2	2	4	3	-	3	29
Tennessee Valley Authority	10	1	-	11	5	3	8	8	-	1	103
Total	2 188	365	150	2 703	839	795	1 634	709	105	814	10 790
1970											
Federal Civil Service	2 612	662	287	3 571	2 001	1 869	3 870	2 368	429	2 797	23 294
Federal Reserve Board	23	5	1	29	18	1	19	14	1	15	348
Foreign Service	6	3	-	9	10	7	17	17	1	18	54
Tennessee Valley Authority	13	2	-	15	12	3	15	7	1	8	226
Total	2 654	672	288	3 624	2 041	1 880	3 921	2 406	432	2 838	23 922
1975											
Federal Civil Service	2 730	990	382	4 102	6 707	2 534	9 241	6 052	908	6 960	36 351
Federal Reserve Board	26	6	1	33	18	1	19	25	2	27	425
Foreign Service	10	4	1	15	40	13	53	49	4	53	153
Tennessee Valley Authority	16	4	1	21	21	5	26	15	1	16	319
Total	2 782	1 004	385	4 171	6 786	2 553	9 339	6 141	915	7 056	39 248
1976											
Federal Civil Service	2 707	1 038	394	4 139	7 877	2 780	10 657	7 096	1 077	8 175	43 063
Federal Reserve Board	26	6	1	33	36	2	38	26	3	29	494
Foreign Service	10	4	1	15	17	14	31	77	6	83	164
Tennessee Valley Authority	18	4	1	23	25	7	32	18	2	20	348
Total	2 761	1 052	397	4 210	7 955	2 803	10 758	7 219	1 088	8 307	44 089
1977											
Federal Civil Service	2 716	1 007	406	4 219	9 337	2 931	12 268	8 143	1 238	9 381	49 687
Federal Reserve Board	25	7	1	33	44	2	46	29	3	32	495
Foreign Service	10	4	1	15	31	17	48	76	6	82	268
Tennessee Valley Authority	20	4	1	25	36	9	39	20	2	22	382
Total	2 771	1 112	409	4 292	9 442	2 959	12 401	8 268	1 249	9 517	50 832

Year	Federal Civil Service	Federal Reserve Board	Foreign Service	Tennessee Valley Authority	Total
1978	2,737	1,148	416	4,301	11,035
	25	7	1	33	49
	10	6	1	17	27
	24	4	1	29	38
	2,798	1,165	419	4,380	11,149
1979	2,700	1,190	427	4,317	12,865
	25	7	1	33	53
	10	6	1	17	25
	23	5	1	31	48
	2,760	1,208	430	4,398	12,992
1980	2,700	1,248	427	4,375	15,562
	26	7	1	34	61
	10	6	1	17	27
	28	5	1	34	50
	2,764	1,266	430	4,460	15,710
1981	2,700	1,301	458	4,479	18,193
	26	7	1	34	47
	11	6	1	18	28
	28	6	1	35	70
	2,765	1,310	461	4,566	18,338
1982	2,660	1,381	483	4,524	19,443
	25	7	1	33	50
	12	7	1	20	31
	28	6	1	33	72
	2,723	1,401	486	4,610	19,596
1983	2,690	1,417	493	4,595	20,614
	25	8	1	34	52
	14	7	1	22	40
	26	6	1	31	73
	2,755	1,433	496	4,683	20,779
1978	2,737	1,148	416	4,301	11,035
	25	7	1	33	49
	10	6	1	17	27
	24	4	1	29	38
	2,798	1,165	419	4,380	11,149
1979	2,700	1,190	427	4,317	12,865
	25	7	1	33	53
	10	6	1	17	25
	23	5	1	31	48
	2,760	1,208	430	4,398	12,992
1980	2,700	1,248	427	4,375	15,562
	26	7	1	34	61
	10	6	1	17	27
	28	5	1	34	50
	2,764	1,266	430	4,460	15,710
1981	2,700	1,301	458	4,479	18,193
	26	7	1	34	47
	11	6	1	18	28
	28	6	1	35	70
	2,765	1,310	461	4,566	18,338
1982	2,660	1,381	483	4,524	19,443
	25	7	1	33	50
	12	7	1	20	31
	28	6	1	33	72
	2,723	1,401	486	4,610	19,596
1983	2,690	1,417	493	4,595	20,614
	25	8	1	34	52
	14	7	1	22	40
	26	6	1	31	73
	2,755	1,433	496	4,683	20,779

NOTE: Details may not add to totals due to rounding. Data for Federal Reserve Board are for calendar years. Data for all other plans are for fiscal years.

Less than 500

Less than \$500,000

Prior to 1970, data include Federal Reserve Bank Plan, which is now noncontributory.

SOURCES: U.S. Office of Personnel Management; formerly U.S. Civil Service Commission; Retirement System of the Federal Reserve Board; U.S. Department of State; and George B. Buck Consulting Activities.

On December 5, 1980, Public Law 96-499 (the Omnibus Reconciliation Act of 1980) was signed into law. This act limits benefit retroactivity, except for disability claims, and (with certain temporary exceptions) includes as "covered wages" any payment of an employee's Social Security taxes by his or her employer.

On August 13, 1981, Public Law 97-35 (the Omnibus Budget Reconciliation Act of 1981) was signed into law. This act made several changes to the OASDI program; it included provisions to phase out post-secondary student's benefits, delay until 1983 lowering the age from 72 to 70 at which the earnings test no longer applies, limit the payment of lump-sum death benefits to certain family members, and offset Social Security DI benefits when total disability benefits paid under public plans exceed predisability earnings. Provisions in P.L. 97-35 that would have eliminated the minimum benefit for both current and future beneficiaries were subsequently amended by P.L. 97-123 (see below).

On December 29, 1981, Public Law 97-123 was signed into law "to amend the Omnibus Budget Reconciliation Act of 1981 to restore minimum benefits under the Social Security Act." This legislation restored such benefits for current, but not future, beneficiaries (i.e., the minimum benefit was eliminated only for people who become eligible for benefits after December 1981). To lessen the cash-flow problems of the OASI program, P.L. 97-123 also authorized inter-fund borrowing among the OASI, DI, and HI Trust Funds, and provides for the coverage, for Social Security tax and benefit purposes, of sick pay during the first 6 months of nonwork.

On April 20, 1983, Public Law 98-21 (the Social Security Amendments of 1983) was signed into law. The major changes made by this law include increasing taxes for employers, workers, and the self-employed, making part of Social Security benefits subject to taxation for upper-income taxpayers, raising the age of eligibility for unreduced retirement benefits in the next century, basing the automatic cost-of-living adjustment on the lower of the CPI increase or the increase in average wages in circumstances where Social Security trust-fund reserves are projected to decline below specified levels, and making new federal employees, members of Congress, the President and other federal officials subject to Social Security taxes for the first time.

Federal Civilian Employee Plans

Among the retirement systems established or maintained by the federal government for its civilian and military employees, only four systems have funding arrangements; benefits under the remaining

systems are paid from current-year government appropriations. These four systems are the U.S. Civil Service Retirement System, the Retirement Plan for Employees of the Federal Reserve Board, the Foreign Service Retirement System and the Tennessee Valley Authority Retirement System.

The largest is the U.S. Civil Service Retirement System which, with 2.7 million active workers on its rolls at year-end 1983, provided benefit payments in 1983 of \$20.4 billion to 1.9 million retired workers and their survivors and dependents, and had accumulated assets of \$110.5 billion. Employer and employee contributions totaled \$25.0 billion in 1983. The share of the employer (the federal government) is considerably larger than the employee's portion because the Civil Service Retirement Fund income also consists of substantial appropriations from the general Treasury. These appropriations are made to cover interest on the retirement fund's unfunded liability—the present value of current liabilities not covered by present assets.

The federal civilian retirement system operates independently of the Social Security system. As a consequence, the pension benefits for federal plans, which are financed in part by employee contributions and provide for cost-of-living adjustments, are set higher than if they were integrated with Social Security. However, the Civil Service system's retirement program currently includes provisions that encourage federal employees to retire at a much earlier age than private sector employees. As a result, many federal Civil Service retirees are also able to qualify for Social Security benefits. In 1979, 63% of all Civil Service annuitants age 62 and over were also entitled to Social Security benefits.

Beginning in 1984, newly hired federal employees will be covered under Social Security. Coverage will also be extended to the incumbent President and Vice President, members of Congress, sitting federal judges, most executive-level political appointees and employees in the legislative branch who are not participating in the Civil Service Retirement system on December 31, 1983. Unless applicable laws are changed, this new Social Security coverage will be in addition to whatever federal retirement-system currently covers these employees.

Railroad Retirement System

The Railroad Retirement system is the only retirement system administered by the federal government that covers a single industry. The system was set up under the Railroad Retirement Act of 1937 to provide financial stability among various railroad plans that

TABLE 13
RAILROAD RETIREMENT SYSTEM
(Thousands of persons and millions of dollars)

Year	Not Yet Receiving Benefits	Number of Persons			Contributions in Year			Benefits Paid in Year			Assets
		Retired or Disabled	Survivors and Dependents	Total	Employers	Employees	Total	Retired or Disabled	Survivors and Dependents	Total	
1930	1,205	141	-	1,400	\$ 30	-	\$ 30	NA	-	NA	-
1940	1,494	251	3	1,349	65	\$ 65	130	\$ 114	-	\$ 114	\$ 136
1950	862	384	136	1,881	273	273	546	254	NA	NA	2,553
1960	650	444	539	1,633	493	298	596	626	\$ 336	962	3,740
1970	595	440	543	1,578	475	467	960	1,108	663	1,771	4,398
1971	586	447	542	1,575	525	475	925	1,200	802	2,002	4,300
1972	589	443	550	1,582	540	500	1,040	1,350	825	2,175	4,100
1973	585	457	546**	1,588	1,201	421	1,622	1,550	1,015	2,565	3,800
1974	532	469	563**	1,564	1,209	423	1,632	1,710	1,098	2,808	3,600
1975	541	466	565**	1,572	1,325	465	1,790	1,970	1,313	3,283	3,100
1976	534	464	569**	1,567	1,457	507	1,964	2,102	1,469	3,571	3,065
1977	553	459	568**	1,580	1,520	546	2,066	2,245	1,579	3,824	2,584
1978	545	455	567**	1,567	1,732	682	2,414	2,353	1,668	4,021	2,787
1979	517	451	564**	1,533	1,845	717	2,562	2,552	1,810	4,362	2,611
1980	477	447	559**	1,483	1,971	838	2,809	2,839	2,027	4,866	2,086
1981	404	443	557**	1,404	2,193	1,015	3,208	3,128	2,243	5,371	1,126
1982	396	438	552**	1,386	2,169	1,004	3,173	3,421	2,422	5,843	460
1983								3,565	2,489	6,054	601

NOTE: Details may not add to totals due to rounding.

NA = Not Available.

**Not available separately.

***Figure includes employee annuitants also receiving benefits as dependents of survivors.

†Excludes financial interchange transfers from Social Security trust funds.

SOURCE: U.S. Railroad Retirement Board.

TABLE 14
STATE AND LOCAL GOVERNMENT RETIREMENT PLANS
(Thousands of persons and millions of dollars)

Year	Not Yet Receiving Benefits	Number of Persons			Contributions in Year			Benefits Paid in Year		
		Retired or Disabled	Survivors and Dependents	Total	Employers	Employees	Total	Retired or Disabled	Survivors and Dependents	Total Assets
1950	2,600	254	40	2,894	\$ 510	\$ 395	\$ 905	\$ 274	\$ 26	\$ 300
1960	4,500	590	70	5,160	1,725	1,170	2,895	940	75	1,015
1970	7,300	1,171	120	8,591	4,920	2,975	7,895	2,905	215	3,120
1971	7,700	1,254	125	9,079	5,495	3,280	8,775	3,372	248	3,620
1972	8,100	1,333	130	9,563	6,050	3,570	9,620	4,085	250	4,335
1973	8,300	1,415	135	9,850	6,649	4,166	10,815	4,785	290	5,075
1974	9,000	1,495	140	10,635	7,821	4,207	12,028	5,495	340	5,835
1975	9,500	1,585	145	11,230	9,116	4,488	13,604	6,335	390	6,725
1976	10,450	1,690	150	12,290	10,502	4,808	15,310	7,250	450	7,700
1977	10,951	1,989	184	13,124	12,369	5,233	17,602	7,965	490	8,455
1978	11,080*	2,120*	200*	13,400*	13,621	5,688	19,309	8,945*	605*	9,550
1979	11,210*	2,260*	210*	13,680*	15,336	6,069	21,405	10,035*	735*	10,770
1980	11,340*	2,390*	220*	13,950*	17,532	6,466	23,998	11,310*	900*	12,210
1981	11,480*	2,520*	230*	14,230*	20,020	7,289	27,309	12,740*	1,090*	13,830
1982	11,607	2,654	244	14,504	21,808	8,123	29,931	14,362	1,318	15,680
1983	11,430	2,873	221	14,524	22,956	8,699	31,655	16,235	1,249	17,484
										289,731

NOTE: Beneficiaries are as of June 30. Financial data is on a calendar year basis prior to 1977, and on a June 30 fiscal year basis thereafter.
*Estimated

SOURCE: Bureau of the Census, U.S. Department of Commerce.

were facing bankruptcy after many years of financial difficulties. The Railroad system is now coordinated with the Social Security system to provide adequate levels of retirement benefits.

The Railroad Retirement Act of 1974 restructured the Railroad Retirement system to correct the problem of dual benefit payments under Railroad Retirement and Social Security programs.

Under the new system, employees with 10 years or more of railroad service receive a two-tier benefit. The first tier, computed under the Social Security benefit formula, is based on the employee's combined railroad and nonrailroad service. However, the benefit is reduced by any Social Security benefit paid as a result of nonrailroad work. The second tier, determined on railroad service alone, consists of several components to reflect the different ways of treating railroad service before and after January 1975.

At year-end 1983, the Railroad Retirement system covered 396,000 workers and in 1983 paid retirement benefits of \$3.6 billion to 438,000 age, service and disability annuitants. In addition, nearly \$2.5 billion was paid to some 552,000 dependents and survivors. The Railroad system is affected by the 1977 Social Security law's provisions regarding adjustments for inflation.

State and Local Government Plans

State and local government retirement systems are designed to provide retirement benefits for teachers, police officers, firefighters and other employees of state, county and city governments. In 1983, such government pension plans paid \$16.2 billion in benefits to an estimated 3.1 million retired workers and their survivors and dependents. Assets held by these systems totaled \$289.7 billion at year-end 1983. Employers and employees contributed \$31.7 billion to the plans, with employers paying 72.5%.

Amendments to the Social Security Act in 1950 and 1954 permitted elective Social Security coverage for state and local employees under certain conditions. About three-fourths of all state and local employees have Social Security; the majority are also covered by their own pension plans. The Social Security Amendments of 1983 included a ban on termination of Social Security coverage for employees of state and local governments.

HISTORICAL GROWTH OF PENSION PLANS

Pension plans for workers in the private sector were introduced in the U.S. in the 19th century and were first offered by railroads and express firms. By World War I, more than half of all U.S. railroad employees were covered by such plans; by the late 1920s, the proportion had increased to 80%.

But the expansion of pension plans to other industries was slow. A major innovation in pensions was made in the 1920s—when life insurance companies introduced group annuity contracts.

By the end of the 1920s, workers covered by private pension plans were concentrated in large enterprises—railroads, public utilities, iron, steel and oil companies, and firms that manufactured machinery.

Generally, private pension plans in operation at this time were set up by employers and financed chiefly by employer contributions. Workers had no voice in their retirement plans, and employers retained discretionary control over payment or withholding of benefits.

However, some trade unions maintained their own pension plans financed by the union members, largely in industries with no company plans. By 1930 about 1 in 5 trade union members was covered by a union pension plan in the U.S. or Canada. These pension plans had some 10,000 beneficiaries and pension fund assets were about \$10 million.

In 1930, some 2.7 million active workers—15% of all privately-employed nonfarm workers—were covered by private pension plans, and about 100,000 retired workers were receiving pension benefits. Annual benefit payments totaled \$90 million, and reserves amounted to \$800 million. (These totals exclude railway employees whose pension plans were privately administered until 1935 when the federally-administered Railroad Retirement System was established.) Contributions to all private pension plans (other than those for railroad workers) were \$200 million in 1930, with the employers paying two-thirds of the total.

Depressed economic conditions impeded the growth of private pensions during the first half of the 1930s, but subsequent economic improvement led to increased coverage by 1940. Also, adoption of the federal Social Security program in 1935 made retirement planning more widely applicable on a national scale. By 1940, more than 4 million active workers participated in private pension plans,

with 160,000 retired workers receiving annual benefit payments of \$140 million. Reserves totaled \$2.4 billion. Contributions to all private pension plans exceeded \$300 million in 1940, with the employers' share declining to less than 60% of the total. One explanation for this is that nearly all newly-formed plans during the 1930s were based on joint contributions by employers and employees, with few noncontributory plans.

Expansion of Private Plans

The exemption of pension contributions from wage control regulations and the deduction of employer pension contributions from the taxable income of employers were significant incentives for the growth of pension plans during World War II. Between 1940 and 1945, more than 2.25 million active workers were added to private retirement plans.

Another significant impetus was the drive by trade unions after the war to add pensions and other supplementary benefits to collective bargaining. Up to this time, pensions were not common in collective bargaining agreements.

The unions were aided in their efforts by the 1949 U.S. Supreme Court ruling requiring employers to bargain on pensions, and by the Steel Industry Fact-Finding Board, which held that industry had an obligation to provide pensions and other welfare benefits. A further spur to union efforts was the inadequacy of Social Security's benefit levels and earnings bases, unchanged from 1937 to 1949.

Between 1945 and 1950, pension coverage was extended to more than 5 million additional workers, more than twice the number of new pension entrants from 1940 to 1945. Some of the plans were not new but were incorporated into collective bargaining agreements, sometimes with more liberal provisions. Three-fourths of workers were covered by noncontributory plans. Private pension plans at the end of 1950 covered 10.3 million persons, including 9.8 million active workers, more than 30% of all persons employed in commerce and industry in the U.S.

In 1950 benefit payments totaled \$370 million. Annual contributions to private plans exceeded \$2 billion, with employers paying nearly 85%. The increased proportion of financing borne by employers was largely attributable to the fact that many plans adopted during World War II, and most pension plans agreed to by collective bargaining, were noncontributory.

With the postwar growth of private pension plans, many workers came to view pensions as deferred earnings, and retirement was increasingly regarded as an earned period of leisure and security, rather than as a time of minimal subsistence.

The greatest growth in private pension plans in terms of coverage, contributions, beneficiaries, benefit payments and assets occurred in the 1950s. Private plans covered 23.0 million persons and annual contributions reached \$5.6 billion by year-end 1960. Reserves increased to \$57 billion, and benefit payments totaled \$1.7 billion.

The growth in contributions and benefits under private retirement plans slowed during the 1960s, and much of the growth that occurred was due to inflation. At year-end 1970, 36.1 million persons were covered by private pension plans, and contributions were \$15 billion. Benefit payments amounted to \$7.4 billion, and reserves reached \$152 billion.

Since the early 1960s, the growth in the number of active covered employees in pension plans administered by life insurance companies has been considerably more rapid than in non-insurance company plans. In 1963, 22.6% of active employees in private plans were participating in insurance company pension plans, increasing to 29.8% in 1970. Also, some 4.0 million additional active workers became covered under insurance company plans from 1963 to 1970, while non-insurance company plans increased their coverage by 3.6 million active workers. While the average number of employees per insurance company pension plan always has been relatively small, this average has become even smaller as the number of plans sponsored by small firms has increased.

By year-end 1975, some 38.4 million active workers were covered by private pension plans, and contributions were about \$32.2 billion. From 1970 to 1975, benefit payments more than doubled to \$14.9 billion, and reserves increased by 71% to \$259 billion.

Pension funds have been an important source of capital for the development of the nation's commerce, industry, housing and services, and a major factor in job creation and stability. In addition, these pension assets have more than doubled since 1970, during a period of fluctuating economic conditions and enactment of the Employee Retirement Income Security Act of 1974.

The following chronology outlines significant events in the development of private and public retirement programs in the United States.

- 1857** New York City established a pension fund for its policemen, the first pension plan covering state or local government employees.
- 1875** First pension plan established in U.S. industry by the American Express Company. Financed solely by the employer.
- 1880** First formal plan supported jointly by employer and employee contributions established by Baltimore & Ohio Railroad Company.

- 1892** Columbia University adopted a pension plan for its professors, at age 65 with a minimum of 15 years service. This was the first private college retirement plan.
- 1893** First pension plan for public school teachers was established in Chicago.
- 1901** Carnegie Steel Company established first enduring plan in a manufacturing company. This plan, with some modifications, was taken over by the United States Steel Company in 1911.
- 1903** Standard Oil Company of New Jersey plan for pensions went into effect. Its terms were informal but were the bases of 26 later plans.
- 1905** First trade union plan which actually functioned was established by the Granite Cutters. Earlier trade union plans, Pattern Makers (1900) and National Association of Letter Carriers (1902), never paid benefits before dissolution.
- 1905** Carnegie Foundation for the Advancement of Teaching was founded, one of its primary purposes being to help provide retirement income for teachers in institutions of higher learning.
- 1907** The first of the large international unions, the International Typographical Union, adopted a formal pension plan for its members.
- 1920** The Federal Civil Service Retirement and Disability Fund was created by Congress.
- 1921** First group annuity contract in the U.S. was issued by Metropolitan Life Insurance Company.
- 1921** Revenue Act of 1921 made employer contributions to profit-sharing trusts tax-exempt. Provisions were extended to pension trusts in 1926.
- 1935** Railroad Retirement System was established and amended in 1937 to create a unified system for the industry.
- 1935** Social Security Act was adopted. Subsequently amended to include survivors and dependents, disabled workers and their dependents, coverage for additional fields of employment; to lower minimum retirement age; to raise benefit levels; to revise contribution schedules; to increase earnings base; in 1965, to establish "Medicare," a broad program of health insurance for people 65 or older; in 1972, to provide supplemental security income benefits to persons 65 or

older, blind, disabled, with little or no income; in 1977 to increase wage base and tax rates in steps beginning in 1978 and to revise the benefit structure.

- 1949** The U.S. Supreme Court ruled that employers are required to bargain on pensions, giving impetus to the drive by trade unions for negotiated pension plans.
- 1949** The Steel Industry Fact-Finding Board held that employers were obliged to provide workers with pensions and other welfare benefits.
- 1952** College Retirement Equities Fund (CREF) was established as the first variable annuity fund.
- 1958** Federal Welfare and Pension Plans Disclosure Act became effective, providing for detailed reporting to the federal government regarding the operation and administration of welfare and pension plans. This law was repealed under ERISA (see 1974), except that it still applies to pre-ERISA plan administration.
- 1958** A provision for U.S. Presidents' retirement benefits and widows of U.S. Presidents' benefits was established as part of the U.S. Code.
- 1959** Life Insurance Company Income Tax Act approved by Congress excluding from taxation investment income attributable to insured pension reserves.
- 1962** H.R. 10 (Keogh Act) adopted (officially the Self-Employed Individual Retirement Act). Subsequently liberalized by amendment; this made available qualified pension planning for self-employed persons, unincorporated small businesses, farmers, professional people and their employees.
- Early 1960s** Most states which did not already permit life insurance companies to maintain separate accounts passed laws specifically allowing them, thus freeing such pension fund investments from some limitations applicable to the companies' general accounts.
- 1963-** The Securities and Exchange Commission ruled that separate account acquisitions are an issuance of securities subject to regulation under the Securities Act, but tax-qualified group pension plans (including variable annuities) were exempted from registration and prospectus requirements of the Securities Act.
- 1964**
- 1965** The President's Committee on Corporate Pension Funds and Other Private Retirement and Welfare Programs issued its

report, "Public Policy and Private Pension Programs." This was the forerunner of ERISA.

- 1974** The Employee Retirement Income Security Act of 1974 (ERISA) was signed into law on September 2, 1974. ERISA is designed to protect participants in private pension plans on plan terminations, and to give individual pension incentives to self-employed persons and those whose employers have no pension plans.
- 1978** The Age Discrimination in Employment Act (ADEA) Amendments of 1978 raised the mandatory retirement age from 65 to 70 for most private sector and state and local government employees and eliminated it for federal employees.
- 1981** The Economic Recovery Tax Act of 1981 raised contribution limits on Individual Retirement Accounts and H.R. 10 plans and extended IRA eligibility to persons covered by employer pension plans.
- 1982** The Tax Equity and Fiscal Responsibility Act of 1982 reduced the benefit and contribution limits for qualified plans, raised the age at which defined benefit plan participants may receive the maximum benefit without actuarial reductions, and decreased the aggregate dollar limit for individuals participating in defined benefit and defined contribution plans.
- 1983** The Social Security Amendments of 1983 increased Social Security taxes and made a portion of Social Security benefits taxable to high income retirees, put a limit on cost-of-living adjustments under some circumstances, made new federal employees, members of Congress, the President and other federal officials subject to Social Security taxes, and gradually increased the retirement age to 67 by the year 2027.
- 1983** The U.S. Supreme Court decided that employee retirement benefits based on contributions made after August 1, 1983, must be calculated without regard to the sex of the employee.
- 1984** The Retirement Equity Act of 1984 lowered the minimum ages for vesting and participation, liberalized break-in-service rules for maternity/paternity leave, required the written consent of the spouse before joint and survivor coverage may be waived under pension plans, and required the payment of a survivor annuity in the case of a vested participant who dies before the annuity starting date.

PENSION TOPICS OF CURRENT INTEREST

Five recent and significant topics relating to pensions are explored in this chapter. Two of these, the Norris decision and the Retirement Equity Act are of special importance to women.

The Norris Decision

In a 5-4 decision, the United States Supreme Court ruled on July 6, 1983, that employers who offer retirement annuity plans that pay smaller monthly benefits to women than to similarly-situated men violate the ban against sex discrimination in employment in Title VII of the Civil Rights Act of 1964. The Court ruling also stated that employers are not exempt from Title VII's ban against sex discrimination even if the only annuities available on the open market are based on sex-segregated annuity tables. In the Court's majority opinion, Justice Thurgood Marshall stated that "it would be inconsistent with the broad remedial purposes of Title VII to hold that an employer who adopts a discriminatory fringe benefit plan can avoid liability on the ground that he could not find a third party willing to treat his employees on a non-discriminatory basis."

The Court also stated explicitly in a footnote to the majority opinion that "the issue in this case is *an employment practice . . .*" and that the "judgment will in no way preclude any insurance company from offering annuity benefits that are calculated on the basis of sex-segregated actuarial tables." In a separate concurring opinion, Justice Sandra Day O'Connor stressed further that the Court's "holding has no necessary effect on current proposals before Congress barring consideration of sex in all insurance plans, including individual purchases of insurance."

The Court's ruling was prospective and applies only to benefits derived from contributions made after August 1, 1983, the effective date of the judgment.

The Retirement Equity Act of 1984

This legislation is designed to benefit women by providing flexibility in pension rules to accommodate special needs related to childbearing and childcare and problems faced by women who get divorced.

The major provisions:

- Require the written consent of the spouse before joint and survivor coverage may be waived under pension plans.

- Lower the minimum age for vesting from 22 to 18, and lower the minimum age for participation from 25 to 21 to give workers credit for early work experience.
- Liberalized break-in service rules for maternity/paternity leave to protect accrued benefits.
- Require the payment of a survivor annuity in the case of a vested participant who dies before the annuity starting date.
- Clarify that ERISA does not preempt state laws if pension benefits are divided between a participant and spouse in divorce cases under a qualified domestic relations order.
- Allow sponsors to distribute in a lump sum to a participant who separates from service the present value of vested benefits if \$3,500 or less.

Distribution of Sources of Income of New Social Security Beneficiaries.

In 1982 the Social Security Administration conducted a survey of 18,599 beneficiaries who first entered payment status during mid-1980 to mid-1981. An analysis of data concerning the beneficiaries in the retired worker sample category of the survey shows that:

- Earnings from employment were reported by 27% of unmarried beneficiaries and 44% of the married couples.
- The average total monthly income of new beneficiaries was \$1,956 for married couples and \$1,024 for unmarried individuals.
- The average monthly Social Security income for unmarried persons was \$432 and \$671 for married couples.
- Of the married couples, 56% received income from pensions and 84% had income from assets.
- Means-tested benefits, most commonly food stamps, were received by 2% of the couples and 7% of unmarried beneficiaries.
- Between 1970 and 1982 the number of new beneficiaries who also received employer provided pensions rose from 25% to 42% for unmarried persons, from 42% to 53% for married men and from 12% to 24% for married women.

TABLE 15
SOURCES OF INCOME FOR RETIRED WORKERS

Income source	Married Couples	Unmarried	
		Men	Women
PERCENT RECEIVING INCOME FROM—			
Social Security	98.3%	97.6%	96.7%
Pensions	55.7	41.3	43.1
Assets	83.8	63.0	72.8
Earnings	43.7	21.9	30.2
Other sources	16.5	16.3	14.5
Welfare	2.0	6.8	7.2

SOURCE: Office of Research, Statistics, and International Policy, Office of Policy, Social Security Administration, 1984. New Beneficiary Survey.

Individual Retirement Accounts: Characteristics and Policy Implications

A survey, designed and sponsored by the Employee Benefit Research Institute and the U.S. Department of Health and Human Services, was conducted by the U.S. Census Bureau in May 1983 to obtain detailed information on the distribution of IRAs for 1982 by workers' earnings, age, sex, job tenure, and size of employer, and on the relationship of IRAs to the provision of employer pensions.

Some of the findings of the survey are:

- More than 16.7 million IRAs had been established by the end of tax year 1982.
- More than half of all funds contributed to IRAs in 1982 came from savings, while 43 percent came from earnings.
- Well over half of those who established an IRA for 1982 reported contributing \$2,000 or more.
- Fixed-interest investment instruments attracted more than 60 percent of IRA funds.
- Highest use rates occur between ages 55 and 64, while the greatest proportion of IRAs are held by those between ages 45 and 54.
- Women at most earnings levels are more likely to establish IRAs than men. Among those who had worked with their current employer between three and five years in 1982 and earned between \$15,000 and \$30,000 women were almost twice as likely as men to have established an IRA.
- Of the 16.7 million workers who reported having IRAs, 3.95 million reported having a nonworking spouse. Of those, 1.95 million established spousal IRAs.
- Obtaining the tax deduction motivated 53.1 percent of those using IRAs as compared with 38.4 percent who were principally interested in saving for retirement.

TABLE 16
SOURCES OF IRA FUNDS BY EARNINGS LEVELS
FOR 1982
(CIVILIAN EMPLOYMENT, MAY 1983)

Earnings	Number of IRAs (000's)	Percent of IRA Funds:	
		From Savings	From Salary
Total	16,713	54.0%	43.0%
\$1 to 4,999	842	49.0	40.0
\$5,000 to 9,999	1,417	49.2	48.0
\$10,000 to 14,999	2,109	52.0	42.3
\$15,000 to 19,999	2,366	52.0	47.0
\$20,000 to 24,999	2,146	58.0	42.0
\$25,000 to 29,999	1,654	59.3	35.0
\$30,000 to 49,999	2,781	61.0	40.0
\$50,000 and over	1,165	50.0	46.3

SOURCE: Employee Benefit Research Institute. Individual Retirement Accounts: Characteristics and Policy Implications, EBRI Issue Brief #32, July 1984.

The IRA Sweepstakes—A Consumer Study

Before 1982, Individual Retirement Accounts (IRAs) were available only to wage earners whose employers did not offer pension plans, and the maximum allowable contribution was 15 percent of gross annual income, to a maximum of \$1,500 per year. Under those restrictions, the IRA market represented about \$5 billion annually. As of January 1, 1982, eligibility was broadened to include most income earners and the maximum contribution was raised to 100 percent of yearly earnings, up to \$2,000. For 1983 contributions are estimated to grow to about \$43 billion.

To shed some light on the characteristics of this new market and to make comparisons between IRA owners investing in insurance companies and those investing in other financial institutions, the Life Insurance Marketing and Research Association conducted a survey of 5,000 households in mid-April 1983. The households were members of the National Family Opinion Research, Inc. mail panel. They were demographically balanced to represent all types of households in the United States. Nearly 3,800 households participated in the survey.

Following are some of the major findings of the study:

- Banks took the lion's share of the 1982 IRA market, with 32 percent of accounts going to savings banks and 27 percent going to commercial banks. Insurance companies followed with 12 percent of accounts.

- The average account size was \$1,580, but average size varied by as much as \$330 across institutions. Stockbrokerage accounts had the largest average account, insurance companies the smallest.
- The most distinguishing characteristic of IRA owners was their household income: The greater the household income, the more likely its members were to invest in IRAs. Investors' average age was 48, and 43 percent were women.
- Eight in 10 households investing in IRAs did so with companies with which they had previously done some type of business. This varied widely by institution, with credit unions having the most repeat customers and mutual fund companies the fewest.
- Over half of all money contributed to 1982 IRAs was "new money"—that is, money from current earnings. After new money, the next most popular sources of money for IRAs were passbook savings accounts, money market or mutual funds, matured CDs, and tax refunds.
- Among all IRA investors, 6 in 10 said that had they not invested in IRAs, all of the money invested would have been saved anyway.
- Although 71 percent of 1982 IRA investors realized that they can transfer funds without tax penalties, only 2 percent planned to change companies.
- The prime time for initial IRA contributions was January 1 to April 15. For 1982 IRAs, the first quarter of 1982 and January through April 15, 1983, together accounted for nearly two thirds of all initial contributions.
- Payroll deduction was chosen by 38 percent of those who had or were intending to open 1983 IRAs and who had payroll deduction for IRAs available.
- Nearly half of the households in the older working couple life stage opened at least one IRA.
- Tax deductibility was clearly considered the most important reason for opening an IRA, followed by saving for retirement, deferral of taxes on interest, and concerns about the future of Social Security.

TABLE 17
INSTITUTION MARKET SHARES OF ACCOUNTS AND DOLLARS

Institutions	Accounts	Dollars
Savings bank	32%	33%
Commercial bank	27	28
Insurance company	12	10
Stockbrokerage firm	9	10
Credit union	9	9
Mutual fund company	8	8
Other	3	2
	100%	100%

SOURCE: Life Insurance Marketing and Research Association. The IRA Sweepstakes-A Consumer Study. Research Report 1984-2, 1984.

The Social Security Amendments of 1983

Enacted on April 20, 1983, Public Law 98-21 makes comprehensive changes in Social Security financing methods and benefit structure. The law incorporates major recommendations of the National Commission on Social Security Reform. Major provisions now being implemented include the following:

- Mandatory coverage of federal civilian employees hired on or after January 1, 1984, certain current federal employees and employees of nonprofit organizations, beginning in 1984; and an immediate ban on termination of coverage of state and local government and nonprofit organization employment.
- Delay of the July 1983 cost-of-living Social Security increase to January 1984 (with corresponding adjustments in the SSI and SMI programs).
- Elimination of "windfall" Social Security benefits for certain workers with pensions based on employment not covered by Social Security.
- Taxation of Social Security benefits for higher-income beneficiaries, beginning with the 1984 tax year.
- Improvements in benefits for divorced spouses, remarried disabled and divorced widows and widowers and certain widows and widowers whose spouse dies many years before the survivor becomes eligible for benefits.
- Advances in the scheduled increases in Social Security tax rates for employers and employees. An increase in the tax rates on self-employment income to make them equal to the combined employee-employer rates.

In addition, P.L. 98-21 includes a provision designed to stabilize the financial status of the program by providing for cost-of-living

increases based on prices or wages—whichever is less—if the trust funds fall below a specified level.

P.L. 98-21 also raises the retirement age in a series of steps to age 67 by the year 2027. Workers born in 1938 will be the first group affected by the gradual increase. Benefits will still be available at age 62, but with proportionate reduction.

THE LANGUAGE OF PENSIONS

The definitions in this chapter are not meant to be comprehensive and may not always be technically complete; they are intended to help the average reader understand the terminology of a complex subject. The *Bibliography* includes numerous sources of technical explanations for those who require precise definitions.

Actuarial Cost Methods—Systems for determining either the contributions to be made under a retirement plan, or level of benefits when the contributions are fixed. In addition to forecasts of mortality, interest and expenses, some of the methods involve estimates of future labor turnover, salary scales and retirement rates.

Actuarial Equivalent—If the present values of two series of payments are equal, taking into account a given interest rate and mortality according to a given table, the two series are said to be actuarially equivalent on this basis. For example, a lifetime monthly benefit of \$67.60 beginning at age 60 (on a given set of actuarial assumptions) can be said to be the actuarial equivalent of \$100 a month beginning at age 65. The actual benefit amounts are different but the present value of the two benefits, considering mortality and interest, is the same.

Actuary—A person professionally trained in the technical aspects of pensions, insurance and related fields. The actuary estimates how much money must be contributed to a pension fund in order to provide future benefits.

Amortization—Paying an interest-bearing liability by gradual reduction through a series of installments, as opposed to one lump-sum payment.

Annuitant—A person entitled to receive payments under an annuity or now receiving such payments.

Annuity—A contract that provides an income for a specified period of time, such as a number of years or for life. Annuity payments are usually made monthly but can be made quarterly, semi-annually or annually. Often used synonymously with "pension."

Assumptions—Conditions and rules underlying the calculation of a pension benefit, including expected interest, mortality and turnover.

Beneficiary—Person named by the participant in a pension or welfare plan to receive any benefits provided by the plan if the participant dies.

Break In Service—A calendar year, plan year or other consecutive 12-month period designated by the plan during which a plan participant does not complete more than 500 hours of service.

Contingent Annuity Option—An option under which an employee may elect to receive, under certain conditions, a reduced amount of annuity with the same income, or a specified fraction, to be paid after his death to another person designated as his contingent annuitant, for that person's lifetime. The contingent annuitant is usually the husband or the wife. (See *Joint and Survivor Annuity*).

Contract Holder—The group, entity or person to whom a group annuity contract is issued.

Covered—A person covered by a pension plan is one who has fulfilled the eligibility requirements in the plan, for whom benefits have accrued, or are accruing, or who is receiving benefits under the plan.

Death Benefit—A payment made to a designated beneficiary upon the death of the employee annuitant.

Deferred Annuity—An annuity under which payment will begin at some definite future date, such as in a specified number of years or at a specified age.

Deferred Compensation—Arrangements by which compensation to employees for past or current services is postponed until some future date.

Defined Benefit Plan—A pension plan stating either (1) the benefits to be received by employees after retirement or (2) the method of determining such benefits. The employer's contributions under such a plan are actuarially determined.

Defined Contribution Plan—A plan under which the contribution rate is fixed and benefits to be received by employees after retirement depend to some extent upon the contributions and their earnings.

Disability Benefit—Periodic payments, usually monthly, payable to participants under some retirement plans, if such participants are eligible for the benefits and become totally and permanently disabled prior to the normal retirement date.

Early Retirement—Retirement of a participant prior to the normal retirement date, usually with a reduced amount of annuity. Early retirement is generally allowed at any time during a period of 5 to 10 years preceding the normal retirement date.

Eligibility Requirements—This term refers to (1) the conditions which an employee must satisfy to participate in a retirement plan, one such condition being the completion of from 1 to 3 years of service with the employer, another the attainment of a specified age, or (2) conditions which an employee must satisfy to obtain a retirement benefit, such as the completion of 15 years of service and the attainment of age 65.

Enrolled Actuary—A person who performs actuarial service for a plan and who is enrolled with the Federal Joint Board for the Enrollment of Actuaries.

Equities—Investments in the form of ownership of property, usually common stocks, as distinguished from fixed income bearing securities, such as bonds or mortgages.

Employee Stock Ownership Plan (ESOP)—A defined contribution pension plan which is designed to invest primarily in employer securities.

Fiduciary—One who exercises discretionary authority or control over management of a plan or disposition of its assets, renders investment advice for a fee, or has authority or responsibility to do so, or has discretionary authority or responsibility in administering a plan.

Forfeitures—Amounts contributed on behalf of terminated, non-vested participants. In a pension plan, such amounts must be applied to reducing future employer contributions. In a profit-sharing plan, such amounts may be allocated to the accounts of remaining participants.

401(k) Plan—A salary reduction plan that allows employees to contribute a portion of their salaries on a tax-deferred basis.

Funded Retirement Plan—A plan under which funds are set aside in advance to provide expected benefits.

Future Service Benefits—Benefits accruing for service after the effective date of coverage under the plan.

Group Annuity Contract—A contract issued by a life insurance company that may be used as the funding instrument for benefits to be made in accordance with a pension plan. A single master contract provides that the group of persons participating in the plan will receive annuities during retirement. Individual certificates stating coverage may be issued to members of the group.

Immediate Annuity—An annuity providing for payment to begin immediately.

Individual Retirement Account—An account to which an individual can make a tax deductible annual contribution of 100% of earnings up to \$2,000 (\$2,250 for a one-income married couple).

Initial Past Service Liability—The actuarial value (single sum) of the past service benefits as of the effective date of the establishment of the plan, or at the date of the latest liberalization. The maximum annual past service contribution allowable for tax deduction is the amount necessary to amortize past service liabilities and other supplementary pension or annuity credits over 10 years. Funding of the past service liability over a period of 30 years (40 in some cases) is required by the Internal Revenue Service under ERISA.

Integration—A coordination of the pension benefit with the Social Security benefit through a specific formula. Qualified plans must integrate so that total benefits are non-discriminatory between rank and file employees and owners, officers or highly compensated employees.

Joint and Survivor Annuity—A contract that provides income periodically, payable during the longer lifetime of two persons. The amount payable may decrease at the death of one or the other. (See *Contingent Annuity Option*.)

Keogh (HR 10) Account—An account to which a self-employed person can make annual tax deductible contributions of the lesser of 25% of income or \$30,000.

Labor-Management Relations Act of 1947 (Taft-Hartley Act)—This law controls conditions under which an employer may pay any money to a representative of employees.

Life Annuity—A series of payments under which payments, once begun, continue throughout the remaining lifetime of the annuitant but not beyond.

Life Annuity With 10 Years Certain—An annuity which pays an income to the annuitant for as long as he or she lives, but if death occurs within 10 years after the annuity payments begin, payments are continued to a named beneficiary for the remainder of the 10 years.

Life Expectancy—The average number of years of life remaining for a group of persons of a given age according to a particular mortality table.

Lump-Sum Distribution—Payment within one taxable year of the entire balance payable to an employee from a trust which forms part of a qualified pension or employee annuity plan on account of that person's death, separation from service or attainment of age 59½.

Minimum Benefits—A provision that a minimum amount of annuity will be paid if the regular benefit formula produces less. This minimum is usually payable only if certain service requirements are met at retirement.

Mortality Table—A table showing how many members of a group, starting at a certain age, will be alive at each succeeding age. It is used to calculate the probability of dying in, or surviving through, any period, and for the valuation of an annuity. To be appropriate for a specific group, it should be based on the experience of individuals having common characteristics, such as sex or occupation.

Multi-Employer Plan—A plan maintained according to a collective bargaining agreement, to which more than one employer contributes. Under ERISA, at the beginning of the plan, no single employer may contribute as much as 50% of the total, and thereafter as much as 75%. An employee may change employers within the group without losing retirement benefits unless a break in service (under the plan) cancels credits earned before the break.

Pension Benefit Guaranty Corporation (PBGC)—The federal body responsible for administering the plan termination insurance program under ERISA.

Pension Benefits—A series of payments to be provided in accordance with the plan of benefits.

Pension Plan—A plan established and maintained by an employer, group of employers, union or any combination, primarily to provide for the payment of definitely determinable benefits to participants after retirement.

Plan Administrator—The person or persons controlling the money or property contributed to the plan, usually designated in the plan agreement.

Portability—The transfer of pension rights and credits when a worker changes jobs.

Prototype Plan—A standardized plan, approved and qualified as to its concept by the Internal Revenue Service, which is made available by life insurance companies, banks and mutual funds for employers' use.

Qualified Plan—A plan which the Internal Revenue Service approves as meeting the requirements of Section 401(a) of the 1954 Internal Revenue Code. Such plans receive tax advantages.

Reserve—The reserve, for an annuity, is the amount of money required to guarantee the payment of annuity benefits at future dates.

Self-Administered (Trusteed or Directly Invested) Plan—A plan funded through a fiduciary, generally a bank, but sometimes a group of individuals, which directly invests the accumulated funds. Retirement payments are made from the fund as they fall due.

Separate Account—A fund held by a life insurance company which is separate and apart from its general assets and is generally used for investment of pension assets in common stocks.

Social Security Option—An option under which the employee may elect that monthly payments of an annuity before a specified age (62 or 65) be increased, and that payments thereafter be decreased to produce, as nearly as practical, a level total annual annuity to the employee, including Social Security benefits when they become due.

Split Funding—The use of two or more funding agencies for the same pension plan. An arrangement whereby a portion of the contributions to the pension plan are paid to a life insurance company and the remainder of the contributions invested through a corporate trustee, primarily in equities.

Spouse's Benefit—Payments to the surviving spouse of a deceased employee, usually in the form of a series of payments upon meeting certain requirements and usually terminating with the survivor's remarriage or death.

Temporary Life Annuity—An annuity payable while the annuitant lives but not beyond a specified period, such as five years. No payments are to be made after the end of the stipulated temporary period or the death of the annuitant.

Transferability—Any arrangement under which the accumulated benefit credits of a terminating participant, or their actuarial value, are transmitted from one plan to another, or to a central agency.

Turnover Rate—The rate at which employees terminate covered service other than by death or retirement. Expected future turnover can be taken into account in translating contributions into benefits.

Variable Annuity—An annuity under which the benefit varies according to the investment results of a life insurance company's separate account.

Vesting—A provision that a pension participant will, after meeting certain requirements, retain a right to all or part of the accrued benefits, even though the employee may leave the job before retirement.

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PERIODICALS: A SELECTION OF MAGAZINES WHICH OFTEN INCLUDE ARTICLES ON PENSIONS

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Employee Benefit Plan Review

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